



REVIEW OF THE
MISSOURI DEVELOPMENT FINANCE BOARD

**From The Office Of State Auditor
Claire McCaskill**

Report No. 2000-73
August 8, 2000
www.auditor.state.mo.us

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

July 2000

www.auditor.state.mo.us

The following problems were discovered as a result of a review conducted by our office of the Missouri Development Finance Board.

In 1982, the legislature established the Industrial Development Board and the Industrial Development and Reserve Fund. This board was authorized to issue loans, bonds and notes to help fund economic development projects. They also established the Industrial Development Guarantee Fund and the Export Finance Fund for use by the Economic Development Commission. This board was to issue guarantees for loans, bonds and notes arising from economic development projects. The Export Finance Fund was established to accept contributions from businesses for the purpose of funding export activities of other Missouri based companies and the contributions would earn a tax credit of 50 percent of the contribution. In 1985, these two entities were combined.

- The Industrial Development Guarantee Fund authorized by state statute has not had any activity since 1985. It appears the Industrial Development Guarantee Fund is no longer necessary. The Missouri Development Finance Board continues to use the Industrial Development and Reserve Fund and the activity of the loan guarantee program is accounted for in this fund. The board should consider requesting the legislature to rescind the authority for the Industrial Development Guarantee Fund.
- It appears there is no meaningful incentive for potential contributors to make donations to the Export Finance Fund. Therefore, no contributions have been received and no export finance tax credits have been issued. The board should consider requesting the legislature rescind the authority for the export finance tax credit program and the attendant Export Finance Fund.

The Missouri Development Finance Board granted retroactive pay increases totaling \$3,838 to several employees. In August and October of 1997, the board granted salary increases to four employees and made the increases retroactive to July 1, 1997. Those four employees received retroactive payments totaling \$1,429. In September 1998, the board granted four employees salary increases and made the increases retroactive to July 1, 1998. Those four employees received retroactive payments totaling \$1,299. In August 1999, the board again granted retroactive increases back to July 1, 1999, to three employees and those employees received \$1,110 in retroactive payments.

Article III, Section 39 of the Missouri Constitution prohibits political subdivisions from granting additional compensation for services already rendered. Although the amounts of the individual retroactive raises were not significant, the practice is prohibited.

YELLOW SHEET

REVIEW OF THE
MISSOURI DEVELOPMENT FINANCE BOARD

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STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

Honorable Mel Carnahan, Governor
and
Members of the Board of Directors
and
Robert V. Miserez, Executive Director
Missouri Development Finance Board
Jefferson City, Missouri 65102

We have conducted a review of the Missouri Development Finance Board (MDFB). The scope of our review included, but was not necessarily limited to, the two fiscal years ended June 30, 1999. The objectives of this review were to:

1. Review certain management practices and financial information for compliance with constitutional provisions, statutes, attorney general's opinions, and board policies.
2. Review the efficiency and effectiveness of certain management practices.
3. Follow-up on the status of recommendations made in our previous report.

Our review was made in accordance with applicable generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. The MDFB had engaged KPMG LLP, Certified Public Accountants, to perform annual audits of the board for the years ended June 30, 1999 and 1998. To minimize any duplication of effort, we reviewed the reports and substantiating workpapers of the CPA firm. We also reviewed the MDFB records, made inquiries of MDFB employees, and examined other papers and documents as deemed appropriate for the review.

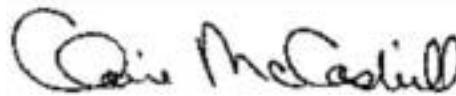
As part of our review, we assessed the MDFB's management controls to the extent we determined necessary to evaluate the specific matters described above and not to provide assurance on those controls. With respect to management controls, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation and we assessed control risk.

Our review was limited to the specific matters described above and was based on selected tests and procedures considered appropriate in the circumstances. Had we performed additional

procedures, other information might have come to our attention that would have been included in this report.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the MDFB's management and was not subjected to the procedures applied in our review of the MDFB.

The accompanying Management Advisory Report presents our findings and recommendations arising from our review of the MDFB.

A handwritten signature in black ink, appearing to read "Claire McCaskill".

Claire McCaskill
State Auditor

April 6, 2000 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Kenneth W. Kuster, CPA
Audit Manager:	John Blattel, CPA
In-Charge Auditors:	Dennis Lockwood, CPA
	Merit Voshage, CPA

MANAGEMENT ADVISORY REPORT SECTION

Management Advisory Report -
State Auditor's Current Recommendations

REVIEW OF THE
MISSOURI DEVELOPMENT FINANCE BOARD
SUMMARY OF FINDINGS

1. Retroactive Pay Increases (page 7-8)

The board granted retroactive raises to most employees totaling \$3,838.

2. Elimination of Unused Funds and Programs (page 8-9)

The Industrial Development Guarantee Fund has not had any activity since 1985. The Export Finance Fund has never had any activity. The export finance tax credit program does not contain any meaningful incentives.

REVIEW OF THE
MISSOURI DEVELOPMENT FINANCE BOARD
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S CURRENT RECOMMENDATIONS

1. Retroactive Pay Increases

The Missouri Development Finance Board (MDFB) granted retroactive pay increases totaling \$3,838 to several employees. In August and October of 1997, the board granted salary increases to four employees and made the increases retroactive to July 1, 1997. Those four employees received retroactive payments totaling \$1,429. In September 1998, the board granted four employees salary increases and made the increases retroactive to July 1, 1998. Those four employees received retroactive payments totaling \$1,299. In August 1999, the board again granted retroactive increases back to July 1, 1999, to three employees and those employees received \$1,110 in retroactive payments.

Article III, Section 39 of the Missouri Constitution prohibits political subdivisions from granting additional compensation for services already rendered. Attorney General's Opinion No. 72, 1955 to Pray, indicates Section 39 also applies to state agencies. Although the amounts of the individual retroactive raises were not significant, this practice is prohibited.

WE RECOMMEND the MDFB discontinue granting retroactive raises.

AUDITEE'S RESPONSE

Effective immediately, the Board will no longer implement retroactive pay increases.

Board membership is comprised of nine private volunteer members appointed by the Governor with the advice and consent of the Senate, the Directors of the Department of Economic Development and Department of Agriculture, and the Lieutenant Governor. The members serve without compensation. Seven members constitute a quorum.

The Board has the power to employ and fix the compensation of an executive director and such other agents or employees as it considers necessary (Section 100.270 (16) RSMo Cumulative Supp. 1999). Compensation for Board staff, along with all other Board operating costs, are funded by fee income generated from Board project financings. Compensation is not funded from state appropriations.

The reasons for authorizing retroactive pay raises were due to various unforeseen circumstances. These circumstances included the necessity of holding telephone conference call meetings in lieu of meetings en masse to obtain a quorum - the Board does not discuss personnel except in closed meetings. Circumstances also required meeting cancellations for lack of a quorum or lack of sufficient business agenda items to bring the members together for a meeting, and member decisions to table this action to future meetings based upon time constraints

resulting from the then current volume of project presentations, all with the express understanding that these increases would be implemented retroactively when time allowed to formally approve them. And, that had time or circumstances allowed to have formally considered these actions at the June or July meetings immediately preceding the end of the fiscal year, these same annual increases would have been formally approved.

Notwithstanding any of the above, the Board will no longer implement retroactive pay increases. Instead, the Board will strive to begin addressing these issues earlier in the year to mitigate the future uncertainty of whether a more timely meeting will be held.

2. Elimination of Unused Funds and Programs
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In 1982, the legislature established the Industrial Development Board and the Industrial Development and Reserve Fund. This board was authorized to issue loans, bonds, and notes to help fund economic development projects. The legislature also established the Industrial Development Guarantee Fund and the Export Finance Fund for use by the Economic Development Commission. This board was to issue guarantees for loans, bonds, and notes arising from economic development projects. The Export Finance Fund was established to accept contributions from businesses for the purpose of funding export activities of other Missouri based companies, and the contributions would earn a tax credit of 50 percent of the contribution. In 1985, these two entities were combined.

- A. The Industrial Development Guarantee Fund authorized under Section 100.260, RSMo, has not had any activity since 1985. It appears the Industrial Development Guarantee Fund is no longer necessary. The MDFB continues to use the Industrial Development and Reserve Fund and the activity of the loan guarantee program is accounted for in this fund. The MDFB should consider requesting the legislature to rescind the authority for the Industrial Development Guarantee Fund.
- B. It appears there is no meaningful incentive for potential contributors to make donations to the Export Finance Fund. Therefore, no contributions have been received and no export finance tax credits have been issued. The MDFB should consider requesting the legislature rescind the authority for the export finance tax credit program and the attendant Export Finance Fund.

WE RECOMMEND the MDFB request the legislature to eliminate the Industrial Development Guarantee Fund. In addition, the MDFB should request the legislature to rescind the authority for the export finance tax credit program and the attendant Export Finance Fund.

AUDITEE'S RESPONSE

The Missouri Development Finance Board does not set legislative economic development agendas or attempt to have legislation introduced on its behalf. The Board administers

programs authorized under statute's enacted. The Board does work closely with the Department of Economic Development (DED) on legislative matters that impact or enhance the Board's authority. These matters are included in DED sponsored legislation. During the just concluded legislative session, Senate Bill 1048, the DED economic development bill, attempted to repeal the Board's authority to grant tax credits for contributions given to the Development and Reserve Fund and the Export Finance Fund. S.B. 1048 did not pass.

This report is intended for the information of the management of the Missouri Development Finance Board and other governmental officials. However, this report is a matter of public record and its distribution is not limited.

Follow-Up on State Auditor's Prior Recommendations

REVIEW OF THE
MISSOURI DEVELOPMENT FINANCE BOARD
FOLLOW-UP ON STATE AUDITOR'S PRIOR RECOMMENDATIONS

This section reports follow-up action taken by the Missouri Development Finance Board (MDFB), formerly known as the Missouri Economic Development, Export and Infrastructure Board (MEDEIB), on recommendations made in the Management Advisory Report (MAR) on our prior report issued for the two years ended June 30, 1993. Although the remaining unimplemented recommendations have not been repeated, the MDFB should consider implementing these recommendations.

1. Purchase of State Office Buildings

The board issued \$14,305,000 of state revenue bonds to finance the purchase of three state office buildings. The board did not require appraisals or mechanical inspections to be submitted for review prior to the completion of the purchases.

Recommendation:

The MEDEIB obtain appraisals and mechanical inspections before purchasing properties. In addition, detailed cost studies should be prepared to ensure that the transaction is clearly cost beneficial to the state.

Status:

The MDFB has not purchased any properties since the prior audit. The Executive Director of the MDFB states that the board would require, as a standard business practice, appraisals and inspections before making any future purchases.

2. Banking Services

Board deposits of \$1,068,000 and \$1,164,020 were not adequately collateralized as of June 30, 1993 and 1992, respectively. In addition, the board does not bid banking services or obtain collateral security agreements for all of its deposited funds.

Recommendation:

The MEDEIB ensure that sufficient collateral securities are pledged at all times. In addition, the MEDEIB should competitively procure banking services for board deposits.

Status:

Partially implemented. While the board receives bids for all investments, the MDFB does not solicit bids for depositary accounts. The Independent Auditor's Report indicated deposits at June 30, 1999 and 1998 were fully collateralized. Although not repeated in the current MAR, the MDFB should consider fully implementing this recommendation.

STATISTICAL SECTION

History, Organization, and
Statistical Information

MISSOURI DEVELOPMENT FINANCE BOARD
HISTORY, ORGANIZATION,
AND STATISTICAL INFORMATION

The Missouri Industrial Development Board was created with the enactment of the Industrial Development Funding Act by the General Assembly in 1982. Initially this board consisted of seven members appointed by the Governor with the advice and consent of the Senate. The members were appointed for four year terms.

Along with the adoption of this act, the Economic Development Act was enacted. This act also created the Economic Development Commission. The commission consisted of nine members. Terms were for six years. The commission was authorized to guarantee up to 90 percent of privately obtained loans up to \$1 million and up to 100 percent of revenue bonds issued by eligible local agencies. The commission was also authorized to grant 50 percent tax credits to taxpayers making contributions to its reserve fund.

In 1985, legislation was enacted which merged the commission into the board. Membership for the board was also expanded to nine. Subsequent legislation broadened the board's powers into the areas of export financing and public infrastructure financing with a resultant name change of the board to the Missouri Economic Development, Export and Infrastructure Board.

In 1993, the legislature authorized the board's third name change to the Missouri Development Finance Board. The Directors of the Department of Economic Development and the Department of Agriculture along with the Lieutenant Governor were designated as voting members of the board. The addition of these three officials increased the board's membership to twelve.

The board was created to promote the economic development of the state of Missouri. This is accomplished primarily by the issuance of revenue bonds, direct loans, and tax credits for projects which will benefit the economy or infrastructure of the state and its political subdivisions. The authority and activities of the board are set forth in Sections 100.250 to 100.297, RSMo 1994, and RSMo Cumulative Supp. 1999, the Missouri Development Finance Board Act, and Sections 100.700 to 100.850, RSMo Cumulative Supp. 1999, the Missouri Business Use Incentives for Large-Scale Development Act.

The following were board members as of June 30, 1999:

	<u>Term Expires September 14,</u>
Thomas P. Rackers, Chairman	2000
Martin E. Harrington, Vice Chairman	2000
John Morrissey, Secretary *	1996
John Starr, Treasurer	2003
Bill Burch	2003
Susan Lauman Constance *	1999
Darwin A. Hindman Jr. **	1999
William V. Turner	2002
Lynne Nikolaisen ***	1998
Joseph L. Driskill, Director, Department of Economic Development	
John L. Saunders, Director, Department of Agriculture	
Roger B. Wilson, Lieutenant Governor	

* Members continue to serve until a replacement is named.

** Term expired on March 21, 1999 and continues to serve until a replacement is named.

*** Member resigned and position is still vacant

At June 30, 1999, the board had 6 employees.

Appendix A

MISSOURI DEVELOPMENT FINANCE BOARD
COMBINED BALANCE SHEETS

		June 30,	
Assets		1999	1998
Cash and investments	\$	5,691,278	7,439,681
Loans and notes receivable		12,869,021	7,830,490
Accrued interest on investments		158,713	97,156
Accrued interest and fees on loans receivable		36,854	60,301
Prepaid expense and other assets		156,613	20,121
Restricted assets		71,190,960	43,722,918
Bond issuance costs, less accumulated amortization		34,052	49,500
Land, building, and equipment, net		1,820,728	1,887,718
Total assets	\$	91,958,219	61,107,885
Liabilities and Fund Equity			
Liabilities:			
Accounts payable and other accrued liabilities	\$	18,375	21,897
Tax credit for contribution deposits		69,785,960	42,817,918
Deferred revenue		2,750,000	2,752,997
Total liabilities		72,554,335	45,592,812
Fund equity:			
Contributed capital		11,383,159	8,943,159
Retained earnings		8,020,725	6,571,914
Total fund equity		19,403,884	15,515,073
Total liabilities and fund equity	\$	91,958,219	61,107,885
Source: Missouri Development Finance Board			
Combined Financial Statements and Schedules			
June 30, 1999 and 1998			
Audited by KMPG, LLP			
Note: See audit report for accompanying notes to the financial statements.			

Appendix B

MISSOURI DEVELOPMENT FINANCE BOARD

COMBINED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

		Year Ended June 30	
		1999	1998
Operating revenues:			
Participation fees	\$	894,503	1,302,647
Interest on loans and notes receivable		308,915	565,377
Rental income		32,061	52,568
Contractual income		58,918	72,149
Other income		174	88
Total operating revenues		1,294,571	1,992,829
Operating expenses:			
Personnel		263,387	250,168
Professional fees		111,893	38,680
Travel		47,532	32,214
Supplies and other		43,496	54,846
Depreciation and amortization expense		95,292	74,426
Bond expense		-	15,000
Loan guarantee default		257,037	96,301
Total operating expenses		818,637	561,635
Operating income		475,934	1,431,194
Nonoperating income:			
State appropriations for loan guarantee default		257,037	96,301
Interest on cash and investments		655,840	386,600
Net income		1,388,811	1,914,095
Add depreciation on contributed capital		60,000	60,000
Increase in retained earnings		1,448,811	1,974,095
Retained earnings, beginning of year		6,575,914	4,601,819
Retained earnings, end of year	\$	8,024,725	6,575,914
Source: Missouri Development Finance Board			
Combined Financial Statements and Schedules			
June 30, 1999 and 1998			
Audited by KMPG, LLP			
Note: See audit report for accompanying notes to the financial statements.			